



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Department of Health

For the period July 1, 2016 through June 30, 2018

Published July 18, 2019

Report No. 1024307





**Office of the Washington State Auditor
Pat McCarthy**

July 18, 2019

John Wiesman
Secretary
Department of Health
Olympia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our independent audit report on the Department's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	5
Related Reports	12
Information about the Department.....	14
About the State Auditor's Office.....	15

AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Department operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we determined the Department could improve its management of small and attractive assets. These recommendations are included with our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Department of Health from July 1, 2016 through June 30, 2018.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.310, which requires the Office of the State Auditor to examine the financial affairs of all state agencies. Our audit involved performing procedures to obtain evidence about the Department's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the years ended June 30, 2018 and 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Universal vaccines – Examined payments for vaccine purchases to ensure they were adequately supported and medical providers received the vaccines
- Nursing professions fees – Examined nursing licenses and fees to ensure the correct fees were received and the fees were received before issuance of a license
- Small and attractive assets – Examined small and attractive assets to ensure the Department had adequate internal controls and followed state requirements and its own policies

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The Department of Health did not have adequate internal controls to ensure it followed state requirements and its own policies related to small and attractive assets.

Background

The State Administrative and Accounting Manual (SAAM) requires state agencies to define non-capitalized assets they consider particularly vulnerable to loss as “small and attractive” and implement policies to protect and control the use of such assets.

SAAM also requires agencies to designate an inventory officer, perform risk assessments periodically, control issuance of tag numbers, and conduct a complete physical inventory of assets at least every two years to reconcile what is physically on hand to the inventory records.

The Department of Health (Department) has a decentralized inventory process in which multiple groups maintain their own inventory lists. The Department’s Information Technology (IT) group tracks IT related small and attractive assets in a computer database, using sequentially numbered asset tags issued at four separate locations. The Department’s purchasing group tracks non-IT small and attractive assets using a handwritten list, using sequentially numbered asset tags. When IT assets are ready to be disposed, Department policy requires a Computer Component Transfer Request form to be completed and forwarded to the IT group. When IT assets are lost or stolen, Department policy requires an Internal Property Transfer Request form to be completed and the Office of the State Auditor to be notified.

In fiscal year 2018, Department records showed 4,019 assets on its IT small and attractive asset inventory – including 3,461 computers, tablets, and printers – and 30 assets on its non-IT small and attractive assets inventory.

Description of Condition

The Department did not have adequate internal controls to ensure it complied with state requirements and its own policies regarding small and attractive assets.

Specifically, we found the Department:

- Did not have a designated inventory officer
- Last updated its small and attractive assets policy in 2008, and the policy did not reflect the Department’s current business practice

- Has not conducted a periodic risk assessment since 2008
- Has not completed a physical inventory since 2015
- Did not always issue asset tag numbers sequentially
- Did not have disposal forms for eight disposed assets as required by Department policy
- Could not find two of the 55 assets we judgmentally selected, and it determined one of the assets was taken by a former commission member.

Cause of Condition

The Department did not monitor to ensure it complied with state policies because of staff turnover.

Effect of Condition

When adequate internal controls over inventories are not in place, public resources are at a higher risk of loss, misuse and abuse.

Recommendations

We recommend the Department:

- Designate an inventory control officer
- Update its small and attractive asset policy to reflect current business practices
- Complete a periodic risk assessment
- Complete a physical inventory
- Ensure asset tags are assigned sequentially
- Ensure required disposal forms are completed and retained as required by Department policy

Department's Response

The Department appreciates the opportunity presented in this report to update our asset management policy, processes, and procedures to ensure they are in alignment with state policies and standards. The Department will review and consider implementing the recommendations provided by the SAO.

Although a complete physical inventory has not been conducted since 2015, a new IT service management system that includes an IT asset inventory module was implemented in December 2016. A physical inventory of computers and laptops was completed in the third quarter of 2017 in order to validate inventory data migrated from the previous system. The new system has an active discovery mode enabled and

performs daily network scans to confirm that devices listed are active on the network. This data will provide improved asset tracking in the future, for both small and attractive and other IT assets. Additional physical inventory activities were conducted through our managed print project which included inventory of all agency multifunction printing devices.

In early June 2019, the Department began scaling up a business project focused on asset management for IT, capital, and small and attractive assets. The intended outcomes and deliverables of the project include an updated agency policy and procedure, clearly defined roles and responsibilities, designation of an agency Inventory Officer, and a plan to conduct an inventory of all assets to meet SAAM requirements. The project is bringing to light opportunities to improve and streamline current practices and incorporate new system capabilities, all of which will be factored into the policy and procedure updates.

The project is scheduled to be completed by the end of calendar year 2019. Thank you again for identifying opportunities for improvement.

Auditor's Concluding Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

State Administrative Accounting Manual (SAAM) – Chapter 30, states in part:

30.20.20 When to capitalize assets

Although small and attractive assets do not meet the state's capitalization policy, they are considered capital assets for purposes of marking and identifying capital assets (refer to Section 30.30), inventory records requirements (refer to Section 30.40), and physical inventory counts (refer to Section 30.45).

30.40.20 Small and attractive assets

Each agency should perform a risk assessment (both financial and operational) on the agency's assets to identify those assets that are particularly at risk or vulnerable to loss. Operational risks include risks associated with data security on mobile or portable computing devices that store or have access to state data. Assets so identified that fall below the state's capitalization policy are

considered small and attractive assets. Each agency should develop written internal policies for managing small and attractive assets. Internal policies should take into consideration the Office of the Chief Information Officer (OCIO) IT Security Standard 141 Section 5.8 Mobile Computing and Section 8.3 Media Handling and Disposal at <https://ocio.wa.gov/policies>.

The agency should implement specific measures to control small and attractive assets in order to minimize identified risks. Periodically, the agency should perform a follow up risk assessment to determine if the additional controls implemented are effective in managing the identified risks.

Agencies must include as small and attractive assets all items in the commodity class code major group 10XX – Weapons, Firearms, Signal Guns, and Accessories. Otherwise, agencies have discretion in setting their definition of small and attractive assets except as noted in this section. However, absent a risk assessment and development of written policies for identifying and controlling small and attractive assets, agencies must include, at a minimum, the following assets with unit costs of \$300 or more:

- 7013 Laptops and Notebook Computers

- 7014 Tablets and Smart Phones

Agencies must also include the following assets with unit costs of \$1,000 or more:

- 6651 Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders

- 6710-6730 Cameras and Photographic Projection Equipment

- 7012 Desktop Computers (PCs)

- 7730 Television Sets, DVD Players, Blu-ray Players, and Video Cameras (home type)

30.40.30 Capital asset inventory system requirements

For assets defined as small and attractive, agencies may use either CAMS or an alternate in-house system without OCIO approval. Among other items, the following are required to be included in the inventory records:

- Acquisition Date – The date the agency takes title to, or assumes responsibility for, an asset.
- Cost – The total cost (value) assigned to the asset. Refer to Subsection 30.20.10 for clarification.
- Description – Name of the asset.
- Disposal Authorization – When required, either the number assigned by the Office of the Chief Information Officer/Technology Services Board (for information technology related equipment and proprietary software) or the Department of Enterprise Services (for all other capital assets), granting an agency the authority to dispose of an asset or as provided by specific statutory authority.
- Disposal Date – With proper authorization, the date that the agency officially relinquishes responsibility for the asset.
- Inventory Control Number – The control number inscribed on, or contained on the inventory tag attached or referring to, an asset.
- Location Code – The identification code of the county in which the asset is located.
- Manufacturer – The name of either the manufacturer or the commonly accepted trade name; if none, then vendor name.
- Order Number – The number of the purchasing document used for the acquisition of the asset.
- Serial Number – The sequential identification number assigned by the manufacturer.

30.45.10 - Physical inventory frequency

Conduct physical inventories at least once every other fiscal year for all inventoriable assets except as noted below.

Due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory every other fiscal year is not required. However, consideration must be given to the requirements of Subsection 85.60.45, which requires adjusting the carrying value of assets that have been impaired.

Agencies may conduct their capital assets inventory on a revolving basis if the following conditions are met:

- Every item is subject to a physical count or verification at least once every other fiscal year.
- The inventory program is documented and active.

As an alternative to conducting a physical inventory of every inventoriable asset at least once every other year, an agency may, pursuant to Subsection 1.10.50, request OFM approval for a risk based sampling approach to a physical inventory. Requests for approval and the agency's capital asset risk assessment are to be sent to the OFM Accounting Division.

30.45.20 - Who should conduct and verify the physical inventory?

In order to ensure objective reporting of inventory items, a physical inventory should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count. If it is not feasible to use such personnel for any part of the inventory, then those portions are, at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.

30.45.40 - Physical inventory reconciliations

After the physical inventory count is completed, the agency inventory officer is to conduct the reconciliation process. When all differences have been identified and explained, the inventory is considered reconciled. Refer to Subsection 85.60.60.

After the inventory is reconciled, the agency inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.

30.45.50 - Retaining physical inventory records

The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the agency. The agency should retain this documentation in

accordance with the approved agency records retention schedules.

35.10.25 Agency responsibilities

The agency head must designate, in writing, one or more Agency Inventory Officers to be responsible for maintaining and safeguarding the agency's inventories. These responsibilities include:

- Selecting appropriate inventory accounting methods and systems from acceptable alternatives (refer to Subsection 35.10.35 and Section 85.56);
- Developing and implementing policies and procedures to safeguard, control, and account for inventories;
- Defining inventory control point in the agency's written internal policies;
- Planning, conducting, and reconciling the physical inventory with inventory records;
- Documenting selected inventory valuation methods;
- Documenting physical inventory procedures; and
- Performing other duties necessary to account for and report inventories.

35.10.70 Retaining inventory records

The inventory reconciliation and certification must be retained by the agency as documentary support for its inventory. The agency should retain this documentation in accordance with agency-approved records-retention schedules.

35.10.75 Lost or stolen property

When suspected or known losses of inventories occur, agencies should conduct a reasonable search for the missing inventory. If the missing items are not found:

- Follow the loss procedures identified in Section 70.75, and
- Remove the lost or stolen items from the inventory and accounting records.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

A summary of the audit for the period ending June 30, 2018, can be found at: <https://www.sao.wa.gov/about-audits/about-state-government-audits/>

Our opinion on the Department of Health's basic financial statements is included in the Department's separate Comprehensive Annual Financial Report.

Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

Performance audits

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the separate Safe Data Disposal and Aligning Healthcare Professional Fees with Licensing Costs performance audit report, which is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

The State Auditor's Office issued a report on a misappropriation of public funds at the Department. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

The State Auditor's Office issued reports pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW). That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DEPARTMENT

The mission of the Department of Health (Department) is to work with others to protect and improve the health of all people in Washington. The Department accomplishes the mission by leading changes in policies, systems and environments to prevent illness and injury, promote healthy families and communities, and encourage healthy lifestyles. To achieve this mission the agency focuses on places where people live, learn, work, recreate, seek healthcare, and worship. The Department works closely with many local government agencies, tribal governments and non-profit organizations across the state. Partnering with boards and commissions the Department oversees the licensing and certification of 80 different types of health professionals who serve the citizens of Washington.

Although the Department supports the Washington State Board of Health, the Board is an independent body that provides a forum for people interested in helping develop public health policy. The Board provides leadership on statewide health issues by promoting policies that protect and improve the public's health.

The Secretary of Health is appointed by the Governor and agency authority is contained in state law (RCW 43.70.020). The Department's main office is located in Tumwater with additional offices in Shoreline, Kent, Spokane and Richland. The Department has approximately 1,886 employees.

The Department receives funding from state appropriations, license fees and federal grants. In total, it receives approximately \$621 million annually. Of that amount, approximately \$292 million is from federal sources, \$75 million is from the state general fund, \$253 million is from various fees and other funding sources.

Contact information related to this report

Address:	Department of Health 101 Israel Road S.E. P.O. Box 47890 Olympia, WA 98504
Contact:	Kristina White, External Audit Manager
Telephone:	360-236-4547
Website:	www.doh.wa.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Department of Health at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov